

# Overview

## Unemployment: A German View

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As a central banker, I belong to that class of people who, as Robert M. Solow has claimed, display "dignity without responsibility" in their attitude to unemployment in Europe.<sup>1</sup> I cannot speak for Europe as a whole; instead, I would rather confine the following remarks to (western) Germany, since in my opinion, the causes of the high unemployment rates in Europe — notwithstanding what one may read in many U.S. studies—differ quite considerably from country to country. This is suggested, for instance, by one symptom: the relatively low level of unemployment among young people in Germany and the high level in our neighbor and partner, France.

Nor has it escaped me, as a central banker, that the level of unemployment in western Germany has increased steeply in the past three decades. Taking the average of the 1960s, the unemployment rate was 1 percent; during the 1970s, it was 2 1/2 percent; in the 1980s, 7 percent; and currently, it is 8 1/2 percent. As has frequently been described, the rises generally occurred in steps, in the wake of recessions; as each successive recession was overcome, unemployment was left at a higher level than before. Largely in accordance with this pattern, the European Community commission<sup>2</sup> is expecting a further increase in unemployment in Europe in the further course of this decade.

In keeping with Solow's above-quoted prejudice against central

bankers, I regard the unemployment in western Germany as very largely being a structural phenomenon. It is primarily due to a whole series of factors which I cannot spell out comprehensively here, but only illustrate with the aid of a number of examples.

(1) In western Germany, there is, in several respects, a mismatch between supply and demand on the labor market. It is reflected among other things in the fact that high unemployment and substantial unsatisfied demand for labor coexist simultaneously. Even in the middle of the recession year 1993, the number of unfilled vacancies amounted to approximately three-quarters of a million—that is, to roughly one-third of the number of **unemployed**.<sup>3</sup> The reasons for this mismatch can be inferred from the fact that the percentages of jobless people who had not completed their schooling or vocational training, and of unemployed persons with health problems or of advanced age, were far higher than the corresponding percentages among the employed. There is no need to explain at length that—in line with the hysteresis hypothesis—it is precisely among these groups with unfavorable labor market characteristics that cyclical unemployment has changed over time into structural unemployment; the trend growth in the percentage of the long-term unemployed likewise derives from these groups. This mismatch has been evident for a long time in regional terms, too.

(2) The interaction of wage substitutes and social security benefits on one hand, and the burden of taxes and social security contributions on the other, lessen the incentive to work, particularly among the lower income groups. The wage substitutes in Germany are generous in two respects: the replacement ratio is comparatively high, and the wage substitutes are granted practically unlimited. Those who are not entitled to unemployment benefits or unemployment assistance receive welfare benefits. It can be demonstrated (with the aid—admittedly—of some rather extreme examples) that the differences between disposable income from employment and such wage substitutes are so small that starting work on the official labor market is not worthwhile. Even a wider gap between disposable income and wage substitutes does not necessarily imply any incentive to take a job on the official labor market. After all, the "gray" labor market, which owes its existence mainly to the heavy burden of taxes and social security contributions, in many cases provides the option of a spare-time job

















